

4 November 2013

Mr Warwick Anderson  
General Manager  
Network Regulation  
Australian Energy Regulator  
GPO Box 3131  
CANBERRA ACT 2601

Dear Warwick

**re: SP AusNet – Draft Decision and Revised Revenue Proposal  
2014-2017**

ElectraNet welcomes the opportunity to lodge a submission in response to the Australian Energy Regulator's (AER) draft decision on the revenue determination for SP AusNet for the period 1 April 2014 to 30 March 2017 and SP AusNet's revised revenue proposal lodged in response. The following brief comments focus on some key aspects that raise important issues of principle in regulatory precedent and approach.

### **Capital Expenditure Forecast**

The AER has made a prudence adjustment to the capital expenditure forecast relating to major substations, asset replacement and safety and compliance based on EMCA's review of SP AusNet's historical capex in the 2008–14 regulatory control period.

ElectraNet questions the merits of extrapolating findings based on what appear to be arbitrary assessments from a review of sample projects. Even leaving aside the substance of these claims, ElectraNet would observe that the past is not necessarily an accurate guide to the future in determining transmission capital expenditure requirements.

ElectraNet also notes that SP AusNet in its revised revenue proposal challenges the claims made by EMCA due to the different length in the current and forthcoming regulatory control periods. ElectraNet agrees with SP AusNet that it is unreasonable to assume that efficiency savings that have been identified in projects for the current six year regulatory period can simply be extrapolated to projects that have been fully costed and have received business cases approved for the coming three year regulatory control period.

This is due to the more limited opportunity for scope changes, changes in engineering design or prudent deferral of projects once a project has received business case approval ahead of the forthcoming three year period, and given the reduced level of uncertainty compared with a six year regulatory control period.

For these reasons it is not reasonable to assume that suggested efficiency savings inferred from the current regulatory control period can simply be extrapolated to the next, and greater weight should be placed on forecast requirements.

### **Operating Expenditure Forecast – Asset works and Insurance Premium**

ElectraNet supports SP AusNet in the view that it is not appropriate to adopt a base year “revealed cost” approach for asset works expenditure or insurance premium forecasts. The “revealed cost” model will only provide Transmission Network Service Providers (TNSPs) with a reasonable opportunity to recover at least efficient cost if the resulting forecast of operating expenditure takes account of the forecast variation in operating expenditure over time, compared to the base year.

Where the efficient volume of activities or works for key categories of expenditure vary materially over time – as is typically the case for some categories of transmission operating expenditure – then it is essential for the expenditure forecasts to take account of that forecast variation.

It is not enough to simply assume that the expenditure in the base year will provide a sufficient allowance where the volume of work is expected to change materially from year to year. Equally, it is invalid to assert that lumpy items are “one off” events that should be excluded from any trend. “One off” or lumpy expenses are incurred based on underlying requirements and therefore need to be recognised.

ElectraNet notes in the ElectraNet 2013-18 Determination the AER accepted the forecast cost of insurance based on independent expert advice. While the AER did not apply this forecast as a zero based forecast methodology, it accepted the difference of \$2.4 million as a step change to the base year extrapolated allowance, giving full effect to the forecast submitted by ElectraNet<sup>1</sup>. Network Service Providers (NSP) remain price takers in the global insurance market and an approach using the “revealed cost” methodology cannot reasonably be expected to reflect SP AusNet’s future insurance costs.

ElectraNet would be happy to engage further in relation to any issues raised in this submission. Should you have any queries please contact Simon Appleby on 08 8404 7324 or 0438 286 570.

Yours sincerely



Rainer Korte  
**Executive Manager Asset Management**

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<sup>1</sup> AER, Final Decision ElectraNet Transmission determination 2013-14 to 2017-18, April 2013, page 33